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C O N F I D E N T I A L LILONGWE 000401

SIPDIS

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SUBJECT: KWACHA SET TO TUMBLE AFTER ELECTIONS

Classified By: Pol/Econoff Marc Dillard for reasons 1.5 b/d.

1. (C) Currently trading around 109 to the dollar, Malawi's kwacha is set to tumble after next week's elections, Reserve Bank of Malawi (RBM) Governor Elias Ngalande told Pol/Econoff. Ngalande speculated that the kwacha will quickly depreciate to the range of 120-125.

2. (C) The RBM, which officially lets the kwacha float, is believed to have set an unofficial ceiling of 110 kwacha to the dollar in the run-up to the elections. Smaller, more market-oriented foreign exchange bureaus have already signaled a depreciation, and there are credible reports that major banks are publishing a 108-109 rate in the newspapers but executing transactions above the 110 mark.

3. (C) Ngalande told Pol/Econoff and the British High Commissioner that he preferred to manage a gradual depreciation after the elections, and to that end, he pitched a plan in which the RBM would "borrow" from the High Commission's local pound account to push up published reserve holdings and (he argued) ward off speculators. The High Commissioner, while sympathetic to the RBM's predicament and sensitive to a depreciation's effect on the poor, noted that the High Commission's local holdings are "small beer" in relation to national foreign exchange needs.

Comment

4. (C) Ngalande's request to the British underscores the precariousness of Malawi's foreign exchange situation, as well as the political sensitivity of the dollar-kwacha exchange rate. With Malawi's IMF program currently on hold, it also adds to the list of challenges the new government will face.

BROWNING